

INTER-OFFICE COMMUNICATION

Date: June 18, 2016
To: Board of Directors
From: Michael R. Crosby, Senior Vice President, Nuclear Energy
Subject: Privileged and Confidential
V. C. Summer Nuclear Station - Units 2 & 3
Executive Session - Board Materials

Attached please find the following information for our joint meeting with SCANA on June 20, 2016. Please note these are the same materials used in preparation for our first joint meeting with SCANA on March 31, 2016. These materials are provided for information only and do not require action by the Board:

- Project Schedule – Summary of Substantial Completion Delays
- SCANA – BIO Information – New Nuclear Project Management
- SCANA – BIO Information – Board of Directors
- Santee Cooper – Draft Concerns with Consortium and EPC Management
- Santee Cooper – Draft Recommendations to SCANA

In addition, the following topics and questions were discussed in executive session during the Executive Corporate Planning Committee meeting on June 17, 2016. These topics should be considered for discussion with SCANA at the joint meeting on June 20, 2016.

1. **Bankruptcy:**
 - What situations could be created for the Owners if WEC / Toshiba files for bankruptcy?
 - Why does SCANA not support securing outside legal counsel?
 - How would we obtain WEC contracted equipment and finish the project?
 - What would Owners do if, due to bankruptcy proceedings, Fluor was not available (or allowed) to finish the project.
2. **Intellectual Property:**
 - What is the status and schedule for securing Intellectual Property?
3. **Fixed Price Scenario:**
 - What will the Owners do if fixed price (\$6.082B) is not sufficient for WEC to complete the Project?
4. **Dispute Resolution Board:**
 - Where do we stand on setting up the Board?
 - Why has this taken so long?

Board of Directors
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5. Construction Milestone Payment Schedule:

- Status update.
- Santee Cooper Recommendation #1 – why did SCANA wait so long to engage 3rd party expertise to assist with effort?
- What is SCANA's plan and schedule to notify WEC and submit CMPS to the DRB?

6. Santee Cooper Recommendations #2 and #5:

- What is SCANA's plan to on-board outside EPC expertise to address assessment recommendations?

If you have any questions, please do not hesitate to call Michael Crosby or Lonnie Carter.

Attachments

SPECIAL CALLED MEETING
OF THE
SANTEE COOPER BOARD OF DIRECTORS

NEXSEN PRUET OFFICE
1230 MAIN STREET
SUITE 700, COLUMBIA, SC

Monday, June 20, 2016 – 10:00 a.m.

AGENDA

I. ROLL CALL

II. EXECUTIVE SESSION

(To discuss matters subject to the attorney-client privilege relating to new nuclear construction)

III. ADJOURNMENT

Board Members:

W. Leighton Lord III, Chairman
Kristofer Clark
William A. Finn
Merrell W. Floyd
J. Calhoun Land IV
Stephen H. Mudge
Peggy H. Pinnell
Dan J. Ray
Alfred L. Reid
David F. Singleton
Jack F. Wolfe
Barry D. Wynn



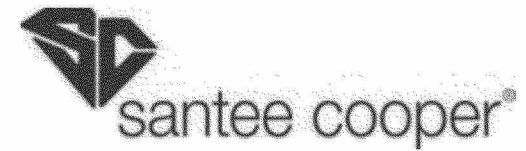
**SPECIAL CALLED MEETING
OF
THE BOARD OF DIRECTORS**

**NEXSEN PRUET OFFICE
1230 MAIN STREET
SUITE 700, COLUMBIA, SC**

**MONDAY, JUNE 20, 2016
10:00 A.M.**

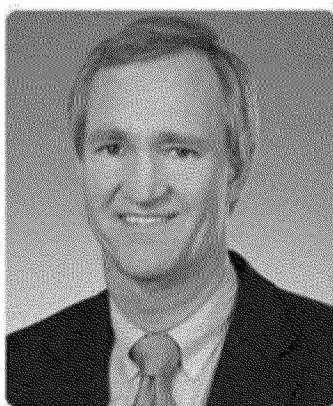
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SANTEE COOPER – DRAFT – RECOMMENDATIONS TO SCANA

Project Schedule



Summary of Substantial Completion Delays

		2016				2017				2018				2019				2020			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unit 2	Original EPC – May 2008																				
	EPC – COL Delay – July 2012																				
	Module Delay – June 2013																				
	Rebaselined Schedule – August 2014																				
	EPC – October 2015 Amendment																				
Unit 3	Original EPC – May 2008																				
	EPC – COL Delay – July 2012																				
	Module Delay – June 2013																				
	Rebaselined Schedule – August 2014																				
	EPC – October 2015 Amendment																				



Stephen A. Byrne

*President, Generation and Transmission and Chief Operating Officer
South Carolina Electric & Gas Company
Executive Vice President, SCANA*

Stephen Byrne joined SCANA in 1995 and has more than 30 years of experience in the utility industry. He has served as SCE&G's chief nuclear officer and executive vice president for generation. As president of SCE&G generation and chief operating officer of SCE&G, Byrne is responsible for a diversified fleet of generation, including SCE&G's plans to construct two new nuclear plants, as well as demand side management, system control and transmission planning and compliance. Prior to joining SCANA he obtained a Nuclear Regulatory Commission Senior Reactor Operator's License while working for a utility in Ohio.

Byrne serves on the National Academy for Nuclear Training Accrediting Board, South Carolina Governor's Nuclear Advisory Council, the University of South Carolina College of Engineering & Computing Dean's Advisory Board, Westinghouse Quality Fuels Council, Savannah River National Lab Advisory Board and the United Way of the Midlands Community Impact Council. He is the current president of the Carolinas Virginia Nuclear Power Associates, Inc. Decommissioning Project and chairman of the nuclear industry's New Plant Oversight Committee.

A native of West Hartlepool, England, Byrne has a Bachelor of Science degree in engineering from Wayne State University.



Jeffrey B. Archie
Senior Vice President and Chief Nuclear Officer
South Carolina Electric & Gas Company

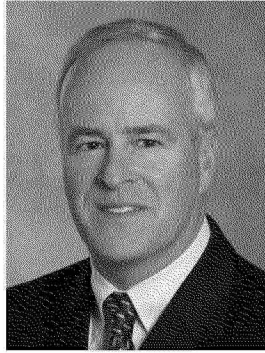
Jeff Archie joined SCE&G in 1978 and began his career at Virgil C. Summer Nuclear Station, just a few miles from where he grew up. He's been in the nuclear industry for more than 30 years. Throughout his tenure at SCE&G, he has held several managerial positions with increasing leadership responsibilities to include general manager, then vice president of nuclear plant operations where his duties included the overall leadership of the V.C. Summer Station's operations, engineering, training and support organizations.

Archie was appointed to senior vice president and chief nuclear officer in May 2010. He is responsible for all nuclear matters, including the day-to-day management of nuclear operations, as well as the overall leadership and strategic direction for existing nuclear operations and new nuclear construction for SCE&G.

As a supporter of community organizations, Archie serves on the Midlands Technical College QuickJobs Advisory Committee, the American Red Cross Regional Advisory Council – Palmetto SC Region, the Palmetto Conservation Foundation Board and the University of South Carolina Parent's Advisory Council. He is a senior advisor to the Liberty Fellowship.

Archie is also a member of the Institute of Nuclear Power Operations Executive Advisory Group, the Nuclear Energy Institute Nuclear Strategic Issues Advisory Committee, the Nuclear Energy Institute Workforce Steering Committee and the University of South Carolina Mechanical Engineering Industrial Advisory Board.

He is a native of Jenkinsville, South Carolina and a graduate of the University of South Carolina, where he earned a Bachelor of Science degree in Mechanical Engineering in 1981.



Ronald A. Jones

Vice President, New Nuclear Operations
South Carolina Electric & Gas Co.

Ron Jones is Vice President, New Nuclear Operations for Units 2 and 3 at SCE&G's V. C. Summer nuclear station. He leads the organization responsible for operational readiness and construction of the two new AP1000 nuclear power plants. Jones joined SCE&G and was named to this position in July 2012.

Jones retired from a 32 year career with Duke Energy in December 2011. He most recently served as Senior Vice President of Nuclear Development for Duke Energy. He was named to this position in December 2010.

Previously, Jones served as Senior Vice President of Nuclear Operations for Duke Energy, from 2005 through 2010. During that period, he provided oversight for the safe and reliable operation of Duke Energy-operated nuclear stations – Catawba, McGuire and Oconee. He also held responsibility for corporate engineering and plant support groups.

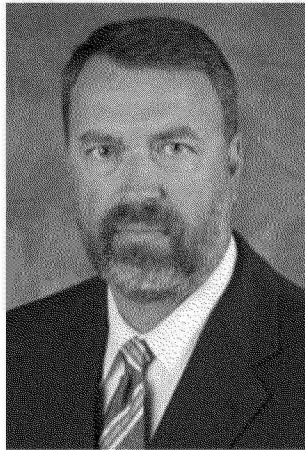
Jones has more than 35 years experience in the nuclear field. He joined Duke Power in 1980 as an engineer at Catawba Nuclear Station. He received his senior reactor operator license for Catawba Nuclear Station from the U.S. Nuclear Regulatory Commission in 1987. Jones held various leadership positions at Catawba, McGuire and Oconee Nuclear stations. After a series of promotions, Jones was named as the Vice President of Oconee Nuclear Station in 2002 and subsequently he assumed the role of Senior Vice President of Nuclear Operations in 2005.

Jones is a member of several organizations related to the industry including the American Nuclear Society, Institute of Electrical and Electronic Engineers and NEI New Plant Task Force. He chairs the NEI Digital I&C Working Group and also chairs the EPRI Advanced Nuclear Technology Action Plan Committee. He is a member of the EPRI Nuclear Power Council Executive Committee. He is also past chairman and past member of the Pressurized Water Reactors Owners Group Executive Management Group and Executive Committee; and past chairman of the Carolinas Nuclear Cluster. He also served as a member of several Nuclear Energy Institute (NEI) industry groups: Workforce Working Group, Small Modular Reactor Working Group, New Plant Oversight Committee and Nuclear Security Working Group.

He previously chaired the APOG, an industry group formed to collaborate on and develop generic products for AP1000 new nuclear projects and was a member of the NuStart Energy Management Committee. Jones has served as a member of the Nuclear Safety Review Boards for both the Tennessee Valley Authority and Progress Energy. He is a graduate of the INPO Senior Nuclear Plant Management program. He is also a past member of the board of directors for Junior Achievement of the Central Carolinas in Charlotte, NC and the Lake Norman Charter School in Huntersville, NC.

The Salisbury, Md., native graduated from Virginia Tech in Blacksburg, Va., with a Bachelor of Science degree in Electrical Engineering in 1980.

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Alan D. Torres
General Manager of Nuclear Construction New Nuclear Deployment
V.C. Summer Nuclear Station Units 2 and 3
South Carolina Electric & Gas Co.

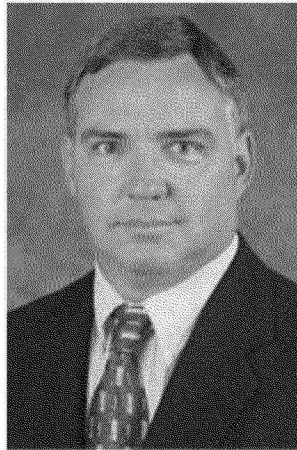
Alan D. Torres is the General Manager of Nuclear Construction for New Nuclear Deployment Unit's 2 and 3 at SCE&G's V.C. Summer nuclear station. Alan was appointed to this position in 2007. He manages the oversight of the EPC contract and construction activities for VC Summer Units 2 and 3.

Torres has more than 40 years with SCE&G at VC Summer Unit 1 and Units 2 and 3 in the nuclear construction field. He joined SEC&G in 1976 working with Construction oversight. He has held various supervisor and manager positions with SCE&G. Torres worked as an Inspection Supervisor, QC Manager, and a QA Supervisor. He received his senior reactor operator certification in 1996. Torres performed qualification for Shift Engineer and was an Outage and Work Control Manager with SCE&G.

Torres is a graduate of Limestone College where he received his Bachelor degree in Business and his Associate degree in Architectural Engineering at Midlands Technical College.

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Robert Bradford (Brad) Stokes
General Manager, Engineering Services, New Nuclear Deployment
V.C. Summer Nuclear Station Units 2 and 3
South Carolina Electric & Gas Co.

A graduate of the Clemson University with an undergraduate degree in Mechanical Engineering, Brad began his service with SCE&G in 1990 after working for seven years in the Nuclear Engineering Department at Charleston Naval Shipyard. During his time at SCE&G he has worked in engineering and supervisory positions in Plant Support Engineering, supervisor in engineering training and supervision and management positions in Design Engineering. A Certified Senior Reactor Operator and registered professional engineer, he now is a part of the management staff which is in the process of licensing and constructing two new nuclear plants at SCE&G's V.C. Summer Nuclear Station.

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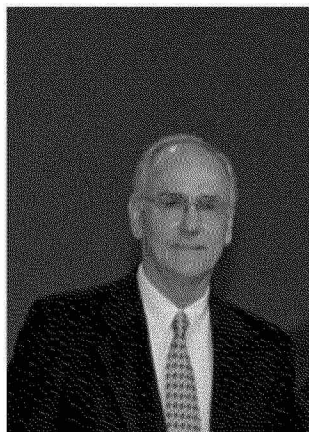


April R. Rice
Manager, Nuclear Licensing
V.C. Summer Nuclear Station Units 2 and 3
South Carolina Electric & Gas Co.

April Rice has over 30 years of experience in the nuclear industry primarily in licensing and engineering. She is currently the Licensing Manager for V. C. Summer Units 2 and 3 and is responsible for activities supporting the licensing of the two new AP 1000 plants. Prior to this, April served as the Environmental Project Manager responsible for oversight of the environmental review team and development of the Environmental Report for the project.

Before joining the New Nuclear Deployment team, April worked at V. C. Summer Unit 1 in Licensing, Plant Support Engineering and Performance Improvement. She received an SRO Certification for Unit 1 in 1995. Prior to joining South Carolina Electric & Gas, April was a Senior Engineer with Impell Corporation. April has a Bachelor of Science degree in Nuclear Engineering from N. C. State University and is a registered Professional Engineer in the State of South Carolina.

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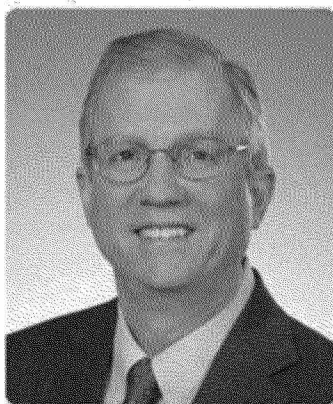
David Lavigne
General Manager
Operational Readiness

David Lavigne is the General Manager, Operational Readiness for South Carolina Electric and Gas New Nuclear Deployment in Jenkinsville, South Carolina.

South Carolina Electric and Gas is a wholly owned subsidiary of SCANA Corporation which delivers electric and gas services to South Carolina, North Carolina and Georgia.

Mr. Lavigne became General Manager, Operational Readiness in April 2010. In this position, he is responsible for assuring the VC Summer AP1000 units successfully transition from the construction to the operational phase. This includes the areas of program and procedure development, staffing of the new units, oversight of the initial test program, and all other matters related to plant operational readiness. Previous positions include management of the VC Summer Unit 1 training programs, quality systems, regulatory support, station nuclear security, materials and procurement and nuclear records and document control functions. Mr. Lavigne holds a Senior Reactor Operator Certification at VC Summer, Unit 1.

Before joining SCE&G in 1977, he spent six years in the nuclear submarine force with the US Navy. A graduate of the University of South Carolina, he has a Bachelors degree in Management Science.



Kevin Marsh
Chairman and Chief Executive Officer
SCANA Corporation

Kevin Marsh joined South Carolina Electric & Gas Company (SCE&G), the principal subsidiary of SCANA Corporation, in 1984 as group manager of technical accounting and was named vice president and controller in 1989. Since then he has served in the capacity of vice president of corporate planning of SCE&G and vice president of finance, treasurer and controller of SCANA Corporation. In 1996, Marsh was named vice president and chief financial officer (CFO) of SCANA and became senior vice president in 1998.

In addition to his duties as SCANA's CFO, from October 2001 to March 2003, he served as president and chief operating officer of PSNC Energy, the company's natural gas distribution company headquartered in Gastonia, North Carolina. He became president of SCE&G in 2006 and became president and chief operating officer (COO) of SCANA Corporation in January 2011. He assumed responsibilities as chairman and CEO in December 2011. Prior to his career at SCANA he worked at Deloitte & Touche Certified Public Accountants in Columbia, South Carolina for seven years.

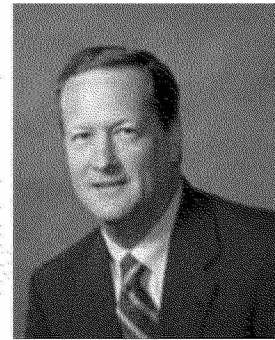
Marsh serves on the board of Epworth Children's Home, Citizens for Sound Conservation, the Institute of Nuclear Power Operations (INPO), the Nuclear Energy Institute (NEI) and the Edison Electric Institute (EEI). He is a past board member of First Citizens Bancorporation of South Carolina, Palmetto Place Children's Emergency Shelter, Junior Achievement of South Carolina, and Sharing God's Love emergency support organization. Kevin and his wife are members of Grace United Methodist Church in Columbia, SC. He has two daughters and two grandchildren.

Marsh is a native of Atlanta, Georgia, and earned a Bachelors of Business Administration degree in Accounting from the University of Georgia in Athens.

Gregory E. Aliff (Reston, VA)

Director since October 2015

- Retired CPA from Deloitte & Touche LLP (Retired 2015)
- Partner for 28 years
- Vice Chairman and Sr. Partner of Energy Resources, Deloitte LLP
- Leader of Deloitte's Energy and Natural Resources Management Services
- Co-Author of annual industry reference book *Accounting for Public Utilities*
- Director of California Water Service Group, Inc (San Jose, CA)
- Director of Grid Alternatives (Oakland, CA)
- B.S. in accounting and MBA from Virginia Tech

**Sharon A. Decker (Mill Spring, NC)**

Director since October 2015

- Sr Vice President of Strategic Initiatives for Tryon International Equestrian Center (Mill Spring, NC)
- Previously served on SCANA Board 2005-2012
- Resigned Board seat to serve as Secretary of Commerce for NC (2013-2014)
- Also serves on Board of Coca Cola Bottling Consolidated and UNC-Charlotte
- Duke Energy (1980-1997)
 - Corporate Vice President
 - Worked in marketing, community relations, customer service
 - Helped establish 24-hr customer service center
- Presbyterian lay pastor
- B.S. Home Economics and Consumer Services, UNC-Greensboro (1979)
- Master of Divinity, Gardner Webb



James M. Micali (Boston, MA)

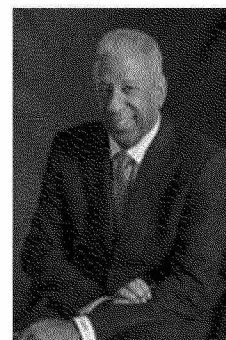
Director since 2007

- Counsel to law firm Ogletree Deakins, LLC in Greenville (2008-2011)
- Chairman and President of Michelin North America in Greenville (1996-2008)
- Since 2008 Sr. Advisor & limited partner of Azalea Fund III of Azalea Capital LLC (private equity firm)
- Served as director of Sonoco Products in Hartsville (since 2003) and Lead Director since 2012
- Serves on board of American Tire Distributors Holding, Inc (Charlotte)
- Board of Lafarge North America (2004-2006)
- Chairman of SC Chamber of Commerce (2008)
- BA – Lake Forrest College (1969)
- JD – Boston College (1973)

**Maceo K. Sloan (Durham, NC)**

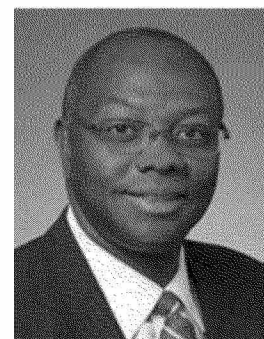
Director since 1997

- Chairman, President & CEO – Sloan Financial Group, Inc. (financial holding company)
- Chairman, CEO, Chief Investment Officer – NCM Capital Management Group, Inc. (one of nation's top minority-owned institutional money managers)
- Chairman, CEO, Chief Investment Officer – NCM Capital Advisers, Inc.
- Principal Officer of NCM Capital Investment Trust since 2007
- Chairman of College Retirement Equities Fund (2009-2012), member since 1991
- Served as Chairman of Board of M&F Bancorp, Inc. and director of its subsidiary Mechanics and Farmers Bank (2005-2008)
- BA – Morehouse College
- MBA – Georgia State University
- JD – North Carolina Central University

**James A. Bennett (Columbia, SC)**

Director since 1997

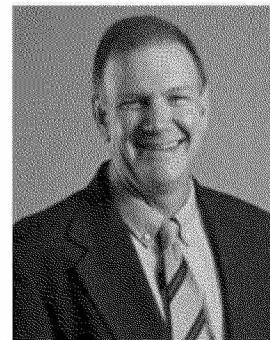
- First Citizens Bank & Trust – Central Area Executive (since 2015)
- First Citizens - Exec. VP and Director of Public Affairs (2002-2015)
- SC Community Bank – President & CEO (2000-2002)
- Serves on boards of Palmetto Health Alliance, Claflin University and the Knight Foundation
- First African-American to receive Outstanding Young Banker Award from SC Bankers Association
- BA – University of South Carolina



D. Maybank Hagood (Charleston, SC)

Director since 1999

- President & CEO of Southern Diversified Distributors, Inc (since 2003), Chairman (Since 2012)
- Parent company of William M. Bird and Company, Southern Tile Distributors, and TranSouth Logistics
- CEO of William M. Bird and Company, wholesale distributor of floor covering materials (since 2003)
- President of William M. Bird and Company (1993-2009)
- North Carolina National Bank – Commercial Lending Officer (1983-1987)
- Citadel School of Business Board of Advisors
- BA in English and MBA from University of Virginia

**Lynne M. Miller (Great Falls, VA)**

Director since 1997

- Chair of SCANA's Nuclear Oversight Committee
- Co-Founder of Environmental Strategies Corporation (Reston, VA environmental consulting firm) in 1986, President (1986-1995), CEO (1995-2003)
- Company was acquired by Quanta Capital Holdings and name changed to Environmental Strategies Consulting, LLC. CEO (2003-2004)
- President of Quanta Technical Services (2005-2006) before retiring
- Director of Adams National Bank in Washington, DC (1998-2008)
- BS in Biology – Wellesley College
- MS in Zoology – Rutgers University

**John F.A.V. Cecil (Asheville, NC)**

Director since 2013

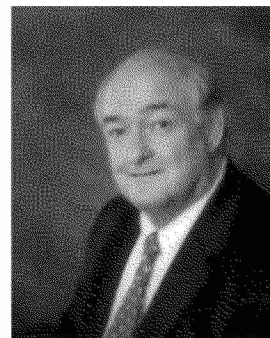
- President of Biltmore Farms, LLC, 4th generation family owned business with focus on sustainable community development (homes, hotels, apartments, etc.)
- Serves on Wells Fargo Bank's Western North Carolina Regional Advisory Board
- NC Economic Development Board
- Chair of Institute of Emerging Issues at NC State, focused on issues affecting NC growth and prosperity
- BA in Interdisciplinary Studies – UNC
- Masters in Management – The American Graduate School of International Management



James W. Roquemore (Orangeburg, SC)

Director since 2007

- CEO and Chairman – Patten Seed Company
- General Manager – Super-Sod/Carolina
- Director of South State Bank
- Past President of Palmetto Agribusiness Council
- Attended Valdosta State College



Alfredo Trujillo (Atlanta, GA)

Director since 2013

- President & COO – The Georgia Tech Foundation (since 2013)
- Self-employed investment fund advisor (since 2007)
- CEO – Recall Corporation, a global information management company (2002-2007)
- President – Recall Corporation (2000-2002)
- Managing Director, Asia Pacific – Recall Corporation (1997-2000)
- Board Director for Haverty's Furniture (2003-Present)
- Board Director for In Zone Brands (2010-Present)
- BS in Aerospace Engineering – Georgia Tech (1981)
- MS in Applied Mechanics – Stanford (1985)
- MBA – Stanford (1988)



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March 3, 2016

V. C. Summer - Units 2 & 3

Concerns with Consortium and EPC Management

The SCE&G oversight staff lacks the experience, and in some cases the support of upper management, to hold the Consortium accountable for the work sold under the EPC Agreement. Due to the AP1000 being a first-of-a-kind design and the Consortium's inexperience with delivery of large scale EPC projects - holding the Consortium accountable for the work is a very difficult task.

Following are concerns and examples that support a Santee Cooper opinion that SCE&G needs to on-board professional EPC management support for the VC Summer Project. Professional EPC management support could help the Owners' hold the Consortium accountable for the work by identifying areas for improvement and making practitioner recommendations to resolve issues:

- **Westinghouse's (WEC) first attempt at an EPC package delivery**
 - The AP1000 units (Chinese & domestic) are WEC's first attempt at managing and delivering integrated EPC new build projects.
 - WEC and its consortium partners (The Shaw Group, Chicago Bridge & Iron, and now Fluor) have not fully completed and integrated the engineering, procurement and construction plans and schedules necessary to deliver the Project.
 - To date, the Consortium has not performed well as a team.
 - WEC - The Shaw Group (basemat design compliance & module delivery issues)
 - WEC - CB&I (commercial issues resulted in an untenable relationship)
 - WEC - Fluor (success to be determined)
- **Commercial motivation**
 - Consortium partners have not been commercially motivated to meet each other's needs - directly affecting the success and outcome of the Project.
 - With the WEC acquisition of Stone & Webster and the addition

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March 3, 2016

of Fluor as the construction manager, the Consortium is now vertically integrated. Commercial motivation remains a concern.

- Evidence already exists that WEC is not properly funding Fluor to allow the addition of needed contractor employees.

- **Consortium transparency**

- Consortium's project management has not provided the appropriate level of transparency on EPC integration, progress and performance.
 - Forecasts for manpower, productivity, and schedule durations do not have a firm basis.
 - Basis changes as schedules develop.

- **WEC's engineering**

- WEC's design engineering has been a significant impediment to the Project from the onset.
- WEC has not reported accurately on the issue.
 - Issue affects the project critical path (nuclear island).
 - Issue affects overall project integration - all planning, scheduling, procurement and construction for project delivery.
- WEC engineering is estimated to be ~ 85% complete.
 - Most recent "engineering complete" target was Apr 30, 2015
 - 520 engineers assigned to AP1000 design (Chinese & domestic)
 - 40 engineers are located at VC Summer

- **Stone & Webster's (S&W) engineering**

- S&W's engineering is anticipated to be the next major impediment to schedule adherence if not completed ahead of need dates.
- S&W reporting has been more accurate but issue needs increased

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focus from Consortium project management.

- Issue affects procurement and installation of plant commodities.
 - Due to the small footprint of the AP1000 nuclear island design, commodity installation has proven to be a significant challenge on the Chinese projects.
 - Procurement, planning and scheduling of commodity installation will be critical to maintaining schedule once the nuclear island structures are in place and equipment set.
- S&W engineering is estimated to ~ 83% complete.
 - Most recent engineering complete target was Aug 31, 2015
 - 270 engineers assigned to AP1000 site specific scope (domestic)
 - 184 engineers located at VC Summer
- WEC engineering design change
 - Volumes of change paper have been generated on the Project affecting:
 - Critical path material deliveries
 - Structural module and shield building wall panel fabrication has been severely impacted.
 - Site construction
 - Issued civil design is often not constructible requiring change modifications, impedes performance and a source of numerous delays
 - Constructability reviews are not sufficiently leading the construction effort to minimize impacts
 - Construction work packages
 - Drawings are not being updated to reflect change paper making work packages difficult to manage,

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construction productivity factor has been severely impacted

- **WEC is attempting to resolve design change as emergent work.**
 - **Coordination between design engineering, field engineering and construction is not adequate.**
 - **Work-off plan and staffing are not adequate.**
- **Project planning, scheduling and execution**
 - **EPC schedules are not completed, resource loaded, and fully integrated to coordinate overall Project delivery.**
 - **Plans and schedules contain unreasonable assumptions and do not reflect actual project circumstances making schedule adherence unrealistic.**
 - **Unit rates for commodity installation are understated.**
 - **Contractor takes longer than planned to install commodities.**
 - **Project critical path does not contain float. The current schedule contains negative float with the project completion dates artificially constrained.**
 - **Critical path material deliveries (structural modules and shield building wall panels) do not support construction need dates.**
 - **Project operates on a 6 -12 month “look-ahead” schedule**
 - **Accuracy of schedule is about 1 - 2 weeks.**
 - **Missed milestones push-out and are rarely recovered**
 - **Initial Startup & Test Program is in the early stages of development. System turnover boundaries are under development along with test planning and scheduling. Detailed planning is required to ensure project schedule is allotted sufficient time to test and startup.**
 - **Increased focus on overall project integration required.**

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March 3, 2016

V. C. Summer - Units 2 & 3

Santee Cooper Recommendations

As changes are occurring to the ownership and management of the Consortium, the Owners have an opportunity to make significant correction to the course of the nuclear construction Project. During the transition, there is a window for the Owners to impose Project changes designed to offset current critical path material delays and poor construction performance attributed to inadequate project integration and management, incomplete engineering, and rework associated with ongoing design alteration.

Over the past seven years, the Consortium's inability to coordinate itself and complete the engineering, procurement, and construction work necessary to deliver this project on a schedule has come at a high cost to the Owners. For each month of project delay, Santee Cooper estimates its share of project cost to be approximately \$35 million.¹ New project management and leadership are needed to overcome these challenges.

The engineering and procurement challenges that continue to face Westinghouse (WEC) have significant impacts upon the Owners. In 2015, only 3.7% direct craft progress (0.31% per month) was earned towards completion of the combined units. The year closed with overall direct craft construction at 18.7% complete. With 81% of the work to go, the monthly construction progress must increase to around 2.5% if contract dates are to be achieved. Failure to realize a significant and sustained increase on this metric over the next six months will invariably result in more project delay.

Considering the Consortium's record, nearly three years of delays, and the risk associated with not achieving the production tax credits, it is incumbent upon the Owners to employ increased and magnified oversight to ensure that

¹ Based on a Santee Cooper internal estimate completed Nov 2014 for a 27 month delay on Unit 2 (delay from March 2017 to June 2019) and a 25 month delay on Unit 3 (delay from May 2018 to June 2020). Estimate includes added costs associated with fuel & replacement power, owners cost, and debt service.

PRIVILEGED AND CONFIDENTIAL

March 3, 2016

WEC and Fluor will properly coordinate efforts to resolve the challenges facing the Project. Intrusive verification of the work by trained project management professionals would help hold the Consortium accountable, and provide more timely and accurate Project status information for the Owners going forward. For this purpose, Santee Cooper makes the following recommendations:

1. Construction Milestone Payment Schedule

Development of the construction milestone payment schedule is vitally important to the Owners to drive schedule adherence and Consortium accountability, to be accomplished in the following way:

- Advise all parties that future payments for work will be made according to the milestone payment schedule without exception
- For avoidance of confusion, payment for construction work will not occur until satisfactory completion of each milestone
- Retain a third party engineering, procurement, and construction firm with personnel experienced in large construction project scheduling and controls by March 31, 2016 to advise and assist Owners with the development of an effective milestone payment schedule.

2. Project Evaluation and Assessment by Owners

- The Owners will take steps to obtain stakeholder and interested party assessments with observations and recommendations on issues impacting all Project functional areas including: project management, engineering and licensing, procurement, construction and project controls, and startup by March 15, 2016.
- Owners' management will complete a detailed review of the assessments and develop an action plan and schedule to implement valid recommendations by April 30, 2016.

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3. Quarterly Meetings with Toshiba / WEC / Fluor

- Schedule and hold quarterly meetings with Toshiba, WEC, and Fluor management to gauge executive commitment to Project and to discuss progress and issues. Owners' executive management will develop and publish a meeting agenda one week in advance of each quarterly meeting. Hold first meeting prior to Owners joint meeting on **March 21, 2016**.

4. Evaluation of Fixed Price Option

- Evaluate Fixed Price Option on a schedule that will support a Public Service Commission (PSC) ruling by **October 1, 2016**. This schedule will allow time for the Santee Cooper Board to make a determination following the PSC ruling and prior to the **November 1, 2016** deadline.

5. Professional Oversight of EPC Agreement

- EPC manager: Retain EPC managerial and project controls expertise responsible for independently measuring and analyzing contract performance and for making recommendations to best influence Consortium behavior, accountability and the successful outcome of the Project. On-board EPC managerial staff by **June 15, 2016**.

There are multiple ways to fulfill this need. The following suggestions are offered for discussion:

- Suggestion 1: SCE&G hire an executive EPC professional, reporting directly to the SCE&G CEO but also answering to the Santee Cooper CEO, responsible for this work. The new executive would be a career professional with extensive experience in complex, new-build generation projects and be responsible for hiring other EPC and project controls expertise as needed. The new executive's compensation would be based solely on project performance and would include performance based incentives and penalties to promote effectiveness of leadership. The CEOs would meet at a

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minimum every other week to receive a report from the EPC professional.

- Suggestion 2: Retain a qualified EPC firm, including executive leadership and support personnel, to provide the needed services. EPC executive to report to Owners' CEOs in a manner similar to above. Contract for EPC firm should include performance based incentives to promote effectiveness of the firm.
- **Engineering:** EPC manager to obtain clear visibility of the maturity and completeness of all project engineering and make practitioner recommendations to best influence the Consortium's performance. Work should begin with analyzing the following:
 - WEC engineering scope
 - Stone & Webster engineering scope
 - Design constructability / change issues

Provide initial report by Aug 31, 2016.

- **Procurement:** EPC manager to obtain clear visibility of all project procurement issues including critical path material deliveries, analyze supply-chain performance, and make practitioner recommendations that would best influence delivery of material by scheduled need dates. Work should begin with analyzing the following:
 - Structural modules – domestic supply
 - Structural modules – foreign supply
 - Shield building wall panels
 - Shield building - air inlet, tension ring, roof structure
 - General procurement issues – equipment and commodities

Provide initial report by Sep 30, 2016.

- **Construction:** EPC manager to independently review and assess construction performance by plant functional areas including productivity factors, labor ratios and all issues affecting direct craft progress. EPC

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manager to make practitioner recommendations that would best influence the monthly progress rate needed to achieve contract completion dates. Provide initial report by Sep 30, 2016.

- **Project Schedule:** EPC manager to independently review and assess the achievability of the Project Schedule including integration of all engineering, procurement, and construction inputs, assumptions, constraints and logic ties by Sep 30, 2016.
- **Project Metrics:** EPC manager to evaluate current project metrics and work with Consortium to develop accurate and consistent industry standard metrics to track actual vs planned completion of each generating unit by functional area and major plant system. EPC manager to develop an executive level dashboard for monthly tracking of all key project metrics by Oct 15, 2016.
- **Quarterly Meetings with Toshiba / WEC / Fluor:** EPC manager to attend meetings and provide independent assessment of Consortium's progress towards resolving the issues that face the Project beginning Q4 2016.